

Message Text

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9935

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FOLLOWING SENT ACTION TO USDOC FM SEOUL DATED OCT 6, 1976
REPEATED FOR YOUR ACTION.

QUOTE

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USDOC

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TAGS: OTRA, BTRA

SUBJECT: POSSIBLE ESTABLISHMENT OF U.S. JOINT VENTURE
 TOBACCO PLANTS IN SOUTH KOREA

REF: STATE 225894

SUMMARY

SENIOR REPRESENTATIVES OF THREE LARGEST U.S. TOBACCO LEAF
FIRMS HAVE VISITED SEOUL TO NEGOTIATE FORMATION OF JOINT
VENTURE TOBACCO RE-DRYING FIRMS IN KOREA. AFTER NEGOTIATIONS,
DURING WHICH EMBASSY OFFERED COUNSEL AND AS MUCH ASSISTANCE
AS WAS POSSIBLE AND APPROPRIATE, U.S. TOBACCO FIRMS RELUCTANTLY
ACCEPTED ROKG REQUIREMENT FOR KOREAN 51 PCT MAJORITY AND
U.S. MINORITY PARTICIPATION. AS RESULT OF TOBACCO REPS'
VISIT SEVERAL JOINT VENTURE TOBACCO RE-DRYING FIRMS WILL BE
ESTABLISHED HERE WITHIN NEXT YEAR EQUIPPED WITH NEW RE-DRYING
MACHINERY, WHICH SHOULD RESULT IN SOME IMPROVEMENT IN QUALITY
OF KOREAN EXPORT TOBACCO. END SUMMARY.

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1. AS EMBASSY WAS ADVISED IN REFTTEL, SENIOR REPRESENTATIVES OF

UNIVERSAL LEAF TOBACCO CO., DIBRELL-CAROLINA CO. AND A.C. MONK AND CO., INC., (LARGEST U.S. TOBACCO LEAF PROCESSING FIRMS) VISITED SEOUL IN LAST WEEK OF SEPTEMBER TO NEGOTIATE WITH KOREAN OFFICE OF MONOPOLY CONCERNING ESTABLISHMENT JOINT VENTURE MODERN TOBACCO RE-DRYING PLANTS, IN ACCORDANCE WITH OFFICE OF MONOPOLY PLAN PRESENTED EARLIER THIS YEAR TO ALL FOREIGN TOBACCO FIRMS DEALING IN KOREAN MARKET.

2. U.S. TOBACCO FIRM OFFICIALS REQUESTED EMBASSY SUPPORT IN THEIR EFFORTS TO OBTAIN OFFICE OF MONOPOLY AGREEMENT TO U.S. MAJORITY OWNERSHIP IN PROPOSED FIRMS. IN THIS CONNECTION EMBOFF CALLED ON DIRECTOR, BUREAU OF FOREIGN INVESTMENT PROMOTION OF EPB AND ON DEPUTY DIRECTOR GENERAL OF OFFICE OF MONOPOLY AND ECON/COM COUNSELOR SPOKE INFORMALLY WITH MINISTER OF FINANCE. ALTHOUGH ROKG OFFICIALS SHOWED SOME UNDERSTANDING U.S. FIRMS RATIONALE FOR MAJORITY OWNER-SHIP AND CONTROL OF PROPOSED JOINT VENTURES AS RESULT OF EMBASSY REPRESENTATIONS, U.S. TOBACCO FIRMS WERE NOT IN STRONG BARGAINING POSITION, SINCE ONE GERMAN TOBACCO FIRM HAD ALREADY ACCEPTED MINORITY POSITION IN JOINT VENTURE TOBACCO RE-DRYING PROJECT. OFFICE OF MONOPOLY ALSO QUITE AWARE OF FACT THAT U.S. FIRMS APVOUSHTO RETAIN OFFICE OF MONOPOLY'S TOBACCO ALLOCATIONS OF REASONABLY PRICED KOREAN TOBACCO FOR EXPORT AND USE AS PRICE REDUCER IN BLENDING OF TOBACCO FOR INTERNATIONAL SALES.

3. AS NOGOTIATIONS PROCEEDED HERE, OFFICE OF MONOPOLY GAVE THE THREE U.S. AND SEVERAL THIRD-COUNTRY TOBACCO FIRMS WHAT WAS IN EFFECT AN ULTIMATUM TO PRESENT PROPOSALS AT ONCE FOR JOINT VENTURES WITH KOREAN MAJORITY PARTICIPATION, OR BE EXCLUDED FROM FURTHER CONSIDERATION. AFTER SOUL SEARCHING AND INTENSIVE CONSULTATION, U.S. FIRMS DECIDED TO MAKE BEST OF WHAT THEY CONSIDER A BAD BARGAIN AND ACCEPTED OFFICE OF MONOPOLY CONDITIONS FOR 51 PCT KOREAN MAJORITY AND 49 PCT U.S. MINORITY OWNERSHIP. DESPITE U.S. TOBACCO REPS' EARLIER PROTESTATIONS TO EMBASSY AND ROKG THAT KOREAN MAJORITY OWNERSHIP OF JOINT FIRMS WOULD BE UNACCEPTABLE, REPS OF THREE FIRMS INFORMED EMBASSY BEFORE RETURNING TO U.S. THAT THEY HOPED TO BUILD IN SUFFICIENT SAFEGUARDS IN JOINT VENTURE AGREEMENTS TO SATISFY HEAD OFFICE REQUIREMENTS CONCERNING COMPANY MANAGEMENT AND TOBACCO QUALITY CONTROL. SINCE KOREAN OFFICE OF MONO-

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POLY NOW HAS SUPERFLUITY OF JOINT VENTURE PROPOSALS FOR TOBACCO RE-DRYING PLANTS, IT APPEARS LIKELY SOME PROPOSALS WILL BE WEEDED OUT BY OFFICE OF MONOPOLY ON TECHNICAL OR OTHER GROUNDS. U.S. AND THIRD COUNTRY TOBACCO FIRMS HAVE, HOWEVER, THROUGH SUBMISSION OF JOINT VENTURE PROPOSALS CONFORMING TO OFFICE OF MONOPOLY GUIDELINES, INSURED CONTINUANCE OF THEIR TOBACCO LEAF ALLOCATIONS THROUGH COMING CROP SEASON WHICH WAS ONE OF THEIR MAJOR WORRIES.

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